

February 28, 2020

Memorandum

To: Members, Committee on Financial Services

From: FSC Majority Staff

Subject: March 4, 2020, “The Trafficker’s Roadmap: How Bad Actors Exploit Financial Systems to Facilitate the Illicit Trade in People, Animals, Drugs, and Weapons”

The Subcommittee on National Security, International Development, and Monetary Policy will hold a hearing entitled, “The Trafficker’s Roadmap: How Bad Actors Exploit Financial Systems to Facilitate the Illicit Trade in People, Animals, Drugs, and Weapons” on Wednesday, March 4th at 10:00 a.m. in room 2128 of the Rayburn House Office Building. This will be a one-panel hearing with the following witnesses:

- **Travis L. Adkins**, Lecturer, African & Security Studies, Walsh School of Foreign Service, Georgetown University
- **Dr. Togzhan Kassenova**, Senior Fellow, Project on International Security, Commerce, and Economic Statecraft (PISCES), Center for Policy Research, SUNY-Albany
- **Celina B. Realuyo**, Adjunct Professor, The George Washington University Elliott School of International Affairs.
- **Gretchen Peters**, Executive Director, Center on Illicit Network and Organized Crime (CINTOC) and The Alliance to Counter Crime Online (ACCO)
- **Angel Nguyen Swift**, Founder and Director, STAT (Stand Together Against Trafficking) and Advisor, Enigma Technologies

Background

Trafficking is the illegal movement, sale, and purchase of goods, many of which are illicit themselves, and people.¹ The scope of trafficking is complex and often involves sophisticated transnational networks² that generate substantial profits and that enable or result in a range of adverse impacts to American society and our economic and national security. The effects of trafficking include the violation of human rights, environmental degradation, corruption, sanctions and tax evasion, political instability, insurgency and terrorism³, and death.⁴ Among the most

¹ Organisation for Economic Co-operation and Development (OECD) [Illicit Trade: Converging Criminal Networks](#) (2016)

² OECD, [Mapping Illicit Trade](#) (April 18, 2016)

³ This nexus with “hard” national security is why trafficking is combatted by defense and intelligence agencies as well as law enforcement. See Liana Rosen, Congressional Research Service, Counter Threat Finance and the Role of the Department of Defense (August 14, 2019)

⁴ As Louise Shelley notes in her book, [Dark Commerce: How a New Illicit Economy is Threatening Our Future](#), “illicit trade is a consequence of the most destabilizing conditions in the world and a key facilitator in their growth.”

commonly trafficked goods are narcotics, wildlife, natural resources (e.g., timber, oil, and gold), cultural property, weapons, counterfeit consumer items, and humans and their organs. (see chart)⁵



Despite coordinated efforts to combat these illicit activities, trafficking generates an estimated \$1.6 to \$2.2 trillion in annual revenue.⁶ The International Labour Organization (ILO) notes that forced labor (including sexual exploitation) is one of the most lucrative forms of criminal proceeds, generating more than \$150 billion annually.⁷ Meanwhile, animal and natural resources trafficking is estimated to have an annual value as high as \$258 billion, growing two to three⁸. The United Nation’s Office on Drugs and Crime

(UNODC)⁹ one drug trafficking organization alone – the Sam Gor network, formed from an alliance of five Asia-Pacific-based criminal organizations – is responsible for 40-70% of the region’s wholesale methamphetamine trade to at least a dozen countries, generating annual revenues of \$17.7 billion.¹⁰

While many existing counter-trafficking initiatives focus on a specific type of trafficking, such as human trafficking, the synthetic opioids trade, or endangered-animal poaching, there are similarities and often collaborations and convergence among trafficking types, groups, methods, and actors, particularly in the use of supply chains and the facilitators who make the movement of goods and proceeds possible. A 2016 UN Environment Programme (UNEP)/INTERPOL report found that, “criminals now include in their trafficking portfolios waste, chemicals, ozone-depleting substances, illegally caught seafood, timber and other forest products, as well as conflict minerals including gold and diamonds.”¹¹ Trafficking-in-persons operations can follow the same routes as the illegal drug trade¹² while narcotics and human trafficking operations often share the same supply chains as the illicit tobacco trade¹³. Similarly, research by the U.S. Intelligence Community confirmed that for terrorism and wildlife, WMD, and narcotics trafficking, “the networks are moving everything...we are able to validate quantitatively and qualitatively that [convergence]

⁵ Global Financial Integrity, [Transnational Crime and the Developing World](#) (Mar 2017)

⁶ Ibid.

⁷ International Labour Organization, [2017 Global Estimates of Modern Slavery](#) (2017)

⁸ World Economic Forum, [Soaring animal and eco trafficking now worth \\$258 billion, report says](#) (Jan 2, 2017)

⁹ United Nations Office on Drugs and Crime, [World Drug Report 2019: Booklet 1 Executive Summary Conclusions and policy implications](#) (Jun 2019)

¹⁰ Tom Allard, Reuters, [The Hunt for Asia’s El Chapo](#) (Oct 14, 2019)

¹¹ UN Environmental Programme-Interpol, [The Rise of Environmental Crime](#) (2016)

¹² UN Office on Drugs and Crime, [Afghanistan opium survey 2018](#) (July 2019)

¹³ Global Initiative Against Transnational Organized Crime, [Human Trafficking and the Illicit Cigarette Trade: Global Consequences](#) (2018)

exists.”¹⁴ For Hezbollah, which is engaged in “narcotics to international used car sales, and from money laundering to procurement front companies, U.S. law enforcement now sees multiple cases where the Hezbollah-affiliated criminal operators are themselves acting as “super-facilitators”¹⁵ for a tremendously wide range of crimes and clients.”¹⁶ As an added layer of complexity, illicit trafficking organizations (like Amazonian networks engaged in illegal logging, narcotics, and modern slavery) often hide their illicit goods in plain sight, co-mingled and indistinguishable among licit goods.¹⁷

While traffickers themselves can be small and local, they are often large, transnational criminal organizations (TCOs) or terrorist groups. This is seen, for example, in the trafficking of fentanyl. Although there are Chinese traffickers who sell directly to U.S. consumers and distributors via the internet, large portions of the U.S. supply of fentanyl comes via Chinese sources to Mexican TCOs, which control the supply and distribution chains into the United States.^{18,19} Similarly, for human trafficking, survivors can be trafficked in their hometowns²⁰ or by TCOs and violent extremist organizations, “such as the self-proclaimed Islamic State in Iraq and Syria and Boko Haram in Nigeria [which] have enslaved women and girls and generated revenue from sex trafficking.”²¹ TCOs and extremist groups have also used trafficking to acquire labor to support military operations or to engage in other illicit activities, including illegal mining.²²

The Financial Aspects of Trafficking

As the U.S. Department of the Treasury’s recently released “2020 National Strategy for Combating Terrorist and Other Illicit Financing”²³ concludes, “While money laundering, terrorism financing, and WMD proliferation financing differ qualitatively and quantitatively, the illicit actors engaging in these activities can exploit the same vulnerabilities and financial channels.”²⁴ The ability to identify those channels and the individuals and organizations that use and control them is essential in the fight against crime and terror: “The focus on financial intelligence continues to reveal links and associations between America’s enemies and networks – otherwise unseen through conventional intelligence. Financial trails don’t lie, and they can reveal relationships of convenience and for profit...”²⁵

¹⁴ .See Gloria Freund, Counter Wildlife Trafficking Lead, Office of the Director of National Intelligence (33m mark), [The Wildlife Trafficking-Security Nexus: Targeting the Organised Crime Threat](#) (Oct 10, 2018)

¹⁵ Douglas Farah, [Convergence: Illicit Networks and National Security in the Age of Globalization](#), National Defense University, Chapter on [Fixers, Super Fixers and Shadow Facilitators: How Networks Connect](#) (2013)

¹⁶ Matthew Levitt, The Washington Institute, [Hezbollah’s Criminal Networks: Useful Idiots, Henchmen, and Organized Criminal Facilitators](#) (Oct 2016)

¹⁷ Casey W. Wilander, Small Wars Journal, [Illicit Confluences: The Intersection of Cocaine and Illicit Timber in the Amazon](#) (Oct 16, 2017)

¹⁸ Financial Crimes Enforcement Network, [Advisory to Financial Institutions on Illicit Financial Schemes and Methods Related to the Trafficking of Fentanyl and Other Synthetic Opioids](#) (Aug 21, 2019)

¹⁹ 90% of the fentanyl through the U.S.-Mexico border comes via ports of entry, not between ports, per Customs and Border Protection. Sari Horwitz and Scott Higham, Washington Post, [The flow of fentanyl: In the mail, over the border](#) (Aug 23, 2019)

²⁰ Polaris, [Myths, Facts, and Statistics](#) (last accessed Feb 22, 2020)

²¹ Jamille Bigio and Rachel Vogelstein, [The Security Implications of Human Trafficking](#) (Oct 2019)

²² Jamille Bigio and Rachel Vogelstein, The Security Implications of Human Trafficking, Council on Foreign Relations Discussion Paper, October 2019. https://cdn.cfr.org/sites/default/files/report_pdf/Discussion_Paper_Bigio_Vogelstein_Security_Trafficking_OR.pdf

²³ This report is prepared by Treasury pursuant to the [Countering America’s Adversaries Through Sanctions Act of 2017](#).

²⁴ U.S. Department of the Treasury, [2020 National Strategy for Combating Terrorist and Other Illicit Financing](#) (Feb 6, 2020)

²⁵ Juan Zarate, [Testimony before the House Financial Services Committee](#) (June 23, 2016)

These potentially traceable illicit financial flows are those that facilitate the transport and sale of illegal goods and services (from origin, through transit, and to the point of destination), and remit the proceeds back to the culpable entities.²⁶ Because “most illicit organizations operate just like transnational businesses, concerned with costs, return, and revenue, just as major firms...function,”²⁷ trafficking networks can be dissected by examining their vulnerabilities in their business models, including their use of third-party facilitators.

These facilitators (also known as “fixers” or “gatekeepers”) include lawyers, notaries, accountants, investment advisors, logistics agents, and trust and company service providers.²⁸ Gatekeepers offer a range of services necessary to manage an illicit enterprise, such as laundering money and value, facilitating real estate transactions, establishing anonymous corporate entities for clients, acting as an intermediary between a financial institution and the client, moving goods, and procuring other professional services.²⁹ For example, “Those seeking to acquire WMD-related goods and material often employ methods typical for other types of financial crime, such as money laundering or tax evasion. For example, the DPRK regime relies on the help of agents and middlemen who reside in third countries. These facilitators use multiple bank accounts under different names and pay for goods in several transactions to muddy transactions. They open multiple accounts in the name of front and shell companies.”³⁰ TCOs “increasingly are turning to professional money launderers, who receive a fee or commission for their laundering services and often use their specialized expertise to launder proceeds generated by others, regardless of the predicate criminal activity.”³¹ Because of the importance of facilitators to most trafficking organization, they are also a key point of vulnerability and an opportunity for detection of illicit activity.

Innumerable methods exist by which a trafficker’s funds can travel (e.g., informal value transfer, trade-based money laundering³², bulk cash, exchange of virtual assets, prepaid cards) but different types of trafficking frequently have notable characteristics or red flags that can be developed into typologies, like those distributed by the Financial Crimes Enforcement Network (FinCEN) and the Financial Action Task Force (FATF). Financial institutions use advisories from these authorities as well as those provided by non-governmental organizations (NGOs) and collaborations like STAT (Stand Together Against Trafficking), a technology platform for the sharing and mapping of human-trafficking typologies,³³ to fulfill responsibilities to report suspicious financial activity. Efforts like the Federal Bureau of Investigation’s Strategic Partner Engagement Section also work with a broad spectrum of businesses, including non-financial businesses, to initiate intelligence exchanges in pursuit of current threat typologies and emerging priority threats.

Given the breadth and scope of trafficking’s illicit financial flows, this task can be too complex for any single financial institution, NGO, or law enforcement agency to manage individually. For

²⁶ Channing May, Global Financial Integrity, [Transnational Crime and the Developing World](#) (March 2017)

²⁷ See Gretchen Peters and Charles Gardner, “Breaking Supply Chains”

²⁸ Association of Certified Anti-Money Laundering Specialists (ACAMS), AML [Glossary - G](#)

²⁹ The integral role of gatekeepers is highlighted in the Panama Papers, the cache of documents and investigative analysis which revealed global incidents of financial crime. [International Consortium of Investigative Journalists](#)

³⁰ Togzhan Kassenova, World ECR: The Journal of Export Controls and Sanctions, [Challenges With Implementing Proliferation Financing Controls: How Export Controls Can Help](#) (2018)

³¹ U.S. Department of the Treasury, [National Strategy for Combating Terrorist and Other Illicit Financing](#) (Feb 6, 2020)

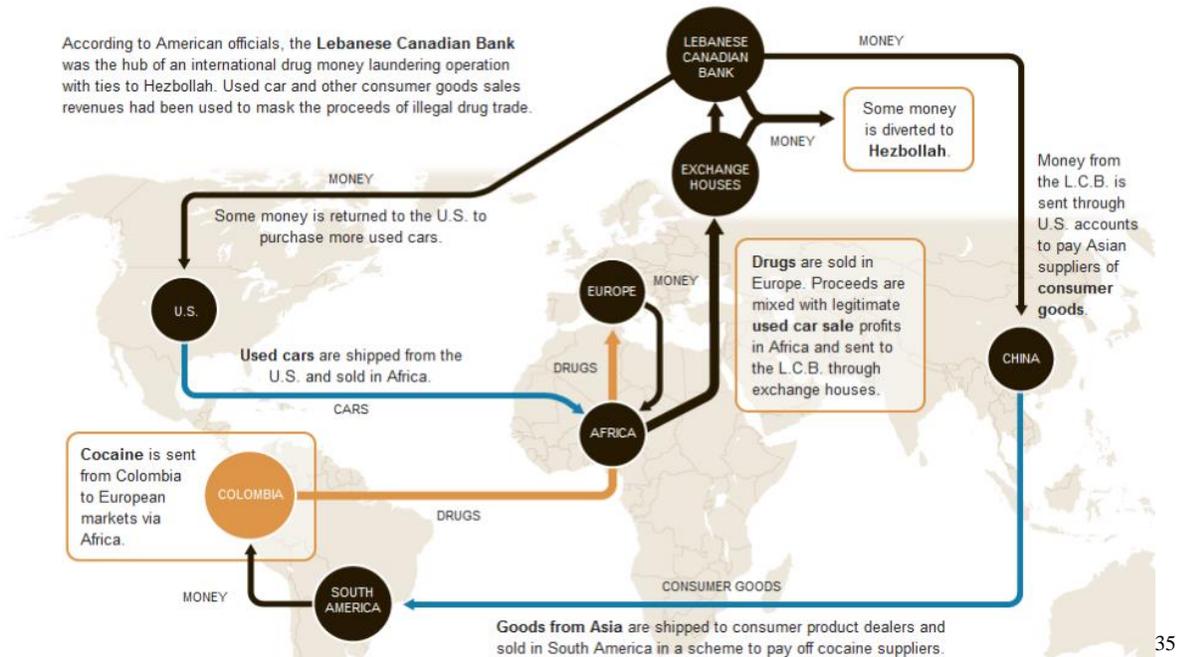
³² Liana W. Rosen, Rena S. Miller, and James K. Jackson, Congressional Research Service, [Trade-Based Money Laundering: Overview and Policy Issues](#) (June 22, 2016)

³³ STAT, <https://stat.enigma.com/#about> (last accessed on Feb 22, 2020)

example, the diagram below shows the multifaceted activity and transnational flow of funds uncovered in the case of the now-defunct, Hezbollah-compromised Lebanese Canadian Bank.³⁴

Money Laundering at Lebanese Bank

The chart below shows the intricate money-laundering system the Lebanese Canadian Bank used to divert money to the Shiite militant group Hezbollah, according to United States officials.



Additionally, the modes and mechanisms that illicit traffickers employ to launder trafficking proceeds are dynamic and evolving. For example, traffickers can now use new, innovative technology tools such as cryptocurrencies to launder their proceeds because the flow of the funds can be harder to trace.³⁶ Thus, collaborations among agencies, governments, financial institutions, NGOs, and other affected industries – good networks to fight the bad – are increasingly important.³⁷

Legislative Proposals

- **Draft bill** – The “Stopping Trafficking, Illicit Flows, Laundering, and Exploitation Act of 2020” or the “STIFLE Act of 2020” is a draft introduced by Rep. Ben McAdams (D-UT) and Rep. Anthony Gonzalez (R-OH) that would study the shared features among trafficking networks, including supply chains, facilitators, finances, and proceeds.
- **H.R. 1387, the CONFRONT Act** is a bill sponsored by Rep. David Kustoff (R-TN) and Rep. Bill Foster (D-IL) that would mandate a national strategy to combat the finances of TCOs, led by the U.S. Department of the Treasury. A U.S. government-wide TCO strategy has not been completed since 2011.

³⁴ Jo Becker, New York Times, [Beirut Bank Seen as a Hub of Hezbollah’s Financing](#) (Dec 13, 2011)

³⁵ Ibid.

³⁶ UN Office on Drugs and Crime, [Technology facilitating trafficking in persons](#) (May 2019)

³⁷ Celina B. Realuyo, [Convergence: Illicit Networks and National Security in the Age of Globalization](#), National Defense University, Chapter on [Collaborating to Combat Illicit Networks Through Interagency and International Efforts](#) (2013)